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FEDERAL GOVERNMENT RELATIONS

OVERVIEW/INTRODUCTION

MPAA Federal Government Relations consists of three professionals and three support staff and is responsible for all industry issues relating to the Congress and Federal agencies. MPAA Federal Government Relations communicates with member companies primarily through the Federal Governmental Affairs Committee and member company Washington representatives. The majority of its activities involve copyright, trade, and telecommunications issues in the legislative and regulatory arena. New digital technologies continue to present important new legislative and regulatory challenges to the motion picture industry, and MPAA is representing industry interests on such crucial matters as Advanced Digital Television, Digital Video Copying and Digital Service Provider Copyright Liability.

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1997 ISSUES AND ACCOMPLISHMENTS

I. THE CONGRESS

MPAA actively monitors scores of Congressional bills that would affect the motion picture industry.

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E. WIPO Treaties

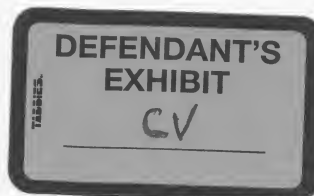
Two significant copyright treaties were successfully negotiated in Geneva in December of 1996. The first treaty, the World Intellectual Property Organization (WIPO) Copyright Treaty, updates the Berne Convention to address the digital age. The second treaty, the



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WIPO Performance and Phonograms Treaty, brings international protection standards for the recording industry into line with those enjoyed by other copyright industries.

MPAA, with other copyright representatives, won a significant battle against opponents of strong copyright protection (principally consumer electronics manufacturers, on-line service providers and libraries) by persuading the White House to recommend strong implementing legislation of the WIPO treaties to the Congress. This implementing legislation was introduced in the House by the chairmen and ranking members of the Courts and Intellectual Property subcommittee as well as the full House Judiciary committee and in the Senate by Judiciary Committee Chairman Hatch.

Throughout the year, MPAA coordinated a coalition of copyright industry groups to advance Congressional action on the implementing legislation and fend off weakening amendments. Jack Valenti testified before the key committees on behalf of the implementing legislation.

Mr. Valenti also testified on the related issue of on-line service (OSP) and Internet service provider (ISP) liability. The OSP/ISP industries have convinced the Congress that the liability issue must be addressed in conjunction with the WIPO treaties. At this time, MPAA and others in the copyright community continue to work toward a resolution of the liability issue so that the WIPO treaties will be ratified by the Congress by the close of the 105th Congress.

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III. DIGITAL VIDEO

MPAA efforts in 1996 to draft a "Digital Home Recording Act" which would control copying from DVDs and other digital source material were redirected in 1997 to developing a private licensing mechanism to achieve the same end.

The basis of this mechanism is an encryption system, developed by Matsushita, which is employed on digital video discs. In order to build a device (either a stand-alone DVD player or computer capable of playing DVDs) that can play encrypted DVDs, the manufacturer must obtain a license which requires the device to obey copy control instructions.

A grueling schedule of twice-weekly meetings produced agreement among the consumer electronics, computer and movie industries on a license and technical specifications which have been implemented in the DVD machines and software now on the market. Work continues on the establishment of a "Licensing Entity" which will assume the responsibility of issuing licenses (currently being done by Matsushita on an interim basis) and upgrading the copy protection technology.

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Although the process has been difficult, time consuming and frequently contentious, the results, viewed with a historical perspective, have been nothing short of remarkable.

Whereas the previous technological Rubicon faced by the industry - the VCR - was met with hostility and litigation, MPAA is attacking the digital future not with lawsuits, but with technological solutions embraced by the developers of new devices who recognize that the success of their hardware is bound to the security of industry software. By viewing digital technology as an opportunity rather than a threat, MPAA has laid a foundation of cooperation and mutual self-interest that promises to provide a secure and prosperous future for the industry.

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MAJOR CHALLENGES/OBJECTIVES FOR 1998

I. CONGRESS

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B. WIPO Treaty implementation

MPAA will continue to push for ratification of the WIPO treaties and swift passage of implementing legislation. The challenge facing passage of the treaties is the OSP/ISP liability issue. MPAA has already engaged in negotiations with the OSPs and ISPs and will continue to work in good faith to address their concerns. In the meantime, MPAA will push for ratification in Congress regardless of whether the liability issue has been fully resolved.

C. Digital Video Recording

Although MPAA plans for Digital Video Recording legislation were derailed by the computer industry in 1996, in 1998, certain elements of the legislation agreed to by the consumer electronics industry and MPAA may find their way into an omnibus digital copyright package consisting of WIPO Treaty implementation, OSP liability and perhaps other pending copyright issues. Currently the consumer electronics industry is opposing WIPO implementation legislation, primarily because it does not provide a clear distinction between permitted and prohibited devices that the consumer electronics manufacturers feel they need. They would also like to have statutory assurance that free television and basic cable programs will remain copyable. Both these elements were in

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